

Citizens' Task Force On Chargers Issues

EVALUATION OF CHARGERS PROPOSAL – GENERAL OBSERVATIONS

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City of San Diego



Presentation Outline

- I. Background**
- II. General Observations – Real Estate Development**
- III. General Observations – Stadium**

I. Background

- Chargers Original Presentation January 16, 2003
- City of San Diego (City) / Barrett Sports Group, LLC (BSG) / Keyser Marston Associates (KMA) Prepared Data Request For Additional Detail
- Chargers Provided Additional Detail At Facilities And Redevelopment Committee January 28, 2003, Including:
 - ✓ Land Use Plan (Including Acreage/Square Feet By Land Use)
 - ✓ Detailed Development Costs
 - ✓ Cash Flow Models And Supporting Assumptions For Each Land Use
 - ✓ Detailed Calculation Of Estimated Tax Increment And Supporting Assumptions
 - ✓ Stadium Development Program Detail
 - ✓ Stadium Cash Flow Model And Supporting Assumptions
- Significant Revisions Made To Development Proposal
- Chargers Assumed Project Must Pay for Itself – No Impact To General Fund
- Creative Approach To Provide Funds – Significant Value/Financing Challenges

I. Background

- Revised Development Program (January 28, 2003) – “Alternative Two”
 - ✓ Residential – 3,294 Units
 - ✓ Office – 600,000 Square Feet
 - ✓ Retail – 230,680 Square Feet
 - ✓ Hotel – 400 Rooms
 - ✓ Park – 9 Acres

- Revised Parking Program (January 28, 2003) – 10,783 Structure/6,400 Surface
 - ✓ Residential – 5,883 Structure/2,100 Surface
 - ✓ Office – 1,800 Structure
 - ✓ Retail – 200 Structure/300 Surface
 - ✓ Hotel – 400 Structure
 - ✓ Stadium – 2,500 Structure/3,000 Surface
 - ✓ Other – 1,000 Surface

- Program Was Subsequently Revised To Include 623 Hotel Rooms

- Land Sale Program Phased Over 6 Years

- Development Build-Out Over 10 Years

II. General Observations – Real Estate Development

- Present Value Estimates Based on Phased Land Sale Program And Tax Increment (January 28, 2003)
- Chargers Assumed Tax Rate of 44% (40% of 1.1)
- Estimated Net Present Value – Based On Chargers Analysis

✓ Net Present Value @ 5.0% (Chargers Assumption)	\$228,174,087
✓ Net Present Value @ 7.5%	\$184,810,204
✓ Net Present Value @ 10.0%	\$155,259,527
✓ Net Present Value @ 12.5%	\$134,127,179
✓ Net Present Value @ 15.0%	\$118,345,040
- Modified Net Present Value – Assuming Bonds Sold Two Years Prior To Stadium Opening

✓ Net Present Value @ 5.0%	\$206,960,624
✓ Net Present Value @ 7.5%	\$171,916,469
✓ Net Present Value @ 10.0%	\$155,259,527
✓ Net Present Value @ 12.5%	\$131,436,277
✓ Net Present Value @ 15.0%	\$108,004,262
- Net Present Value Calculations Have Increased As A Result Of Most Recent Program Modifications

II. General Observations – Real Estate Development

- Stadium Lease Constraints – Redevelopment Opportunities Limited Without Chargers Consent (15,000 Stalls)
- Tax Increment Would Require Redevelopment Area or Infrastructure Facilities District and County Cooperation
- Capture Rate at 44% (40% of 1.1) May Be High
- Market Demand Analysis Should Be Completed To Evaluate Project Density Assumptions – Density Will Impact Land Value
- Project Phasing May Result In Stadium Operational Challenges – Qualcomm Stadium Cannot Be Demolished Until New Stadium Is Constructed
- Infrastructure/Mitigation Costs Not Addressed
 - ✓ Impact On Land Value/Net Proceeds
 - ✓ Funding Source Must Be Identified
- Existing Qualcomm Stadium Debt Not Addressed – \$65 Million To \$70 Million
- Concessionaire Termination Payment Not Addressed
- Naming Rights Reimbursement (As Applicable) Not Addressed

II. General Observations – Real Estate Development

- Alternate Sites Should Be Considered – Land Proceeds May Pay For Alternate Site Acquisition And On-Site Infrastructure Improvements
- Parking Program Must Be Carefully Considered – Potential Real Estate Development/Stadium Operational Issues
- Debt Service Requirements Should Be Estimated
- Alternative Financing Structures Should Be Considered To Address Debt Service Payment Requirements Versus Timing of Land Sales/Tax Increment
- Deal Must Be Structured To Minimize City Risk
 - ✓ Infrastructure/Mitigation
 - ✓ Land Sale Proceeds
 - ✓ Potential Tax Increment
 - ✓ Stadium
 - Cost Overruns
 - Operations
 - Capital Replacement/Improvements
- Consideration Could Be Given To Issuing A Request For Development Proposals (Meadowlands/Pontiac Silverdome)
- Seek Protection/Guarantee From Chargers In Connection With Land Sales Proceeds And Tax Increment

III. General Observations – Stadium

- Chargers/NFL Investment At \$200 Million – Higher Than Franchises In Comparable Markets
 - ✓ Overall Investment Is:
 - Greater Than 13
 - Comparable To 3
 - Less Than 4 (Large Market Franchises)
- Chargers Investment – \$132 Million (Combination Debt/Equity)
 - ✓ 100% Debt Financing – Annual Debt Service \$11.3 Million (Unlikely Scenario)
- NFL G-3 Investment – \$68 Million
- Request/Require Multiple Super Bowls
- Consider Additional NFL Investment To Fund Super Bowl Related Improvements
- Consider Limited Super Bowl PSL Program To Increase Potential Demand
- Chargers Net Increment
- Chargers Competitive Position

III. General Observations – Stadium

- Carefully Consider Design/Development Issues Related To Other Tenants/Users
- Renovation Costs \$10 Million Less Than New Stadium Construction
- Project Budget Does Not Appear To Include Temporary Seating Costs For Super Bowl/Special Events
- Indirect (15%) / Contingency (5%) / Financing Costs Appear Low
- Property/Possessory Interest Tax Not Addressed
- Parking May Present An Operational Issue

III. General Observations – Stadium

- **Chargers Have Proposed To Operate Facility**
 - ✓ Retain All Revenues
 - ✓ Nominal Rent
 - ✓ Pay All Expenses
 - ✓ Pay All Capital Improvements

- **Stadium Cash Flow Model Assumptions**
 - ✓ Average Ticket Price – Low
 - ✓ Average Paid Attendance – Reasonable
 - ✓ Turnstile Attendance – Somewhat Aggressive
 - ✓ Average Luxury Suite Price – Reasonable
 - ✓ Number of Luxury Suites Leased – Reasonable
 - ✓ Average Club Seat Price – Reasonable
 - ✓ Number of Club Seats Leased – Aggressive
 - ✓ Concessions Per Capita – Low
 - ✓ Novelties Per Capita – Somewhat Aggressive
 - ✓ Concessions Revenue Allocation – Low (May Be Assuming Investment Upfront)
 - ✓ Advertising – Somewhat Aggressive
 - ✓ Naming Rights – Somewhat Conservative
 - ✓ Other Event Revenue – Low
 - ✓ Parking Revenue – High
 - ✓ Operating Expenses – High